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United States Department of Agriculture

A Guide to Cooperative Housing

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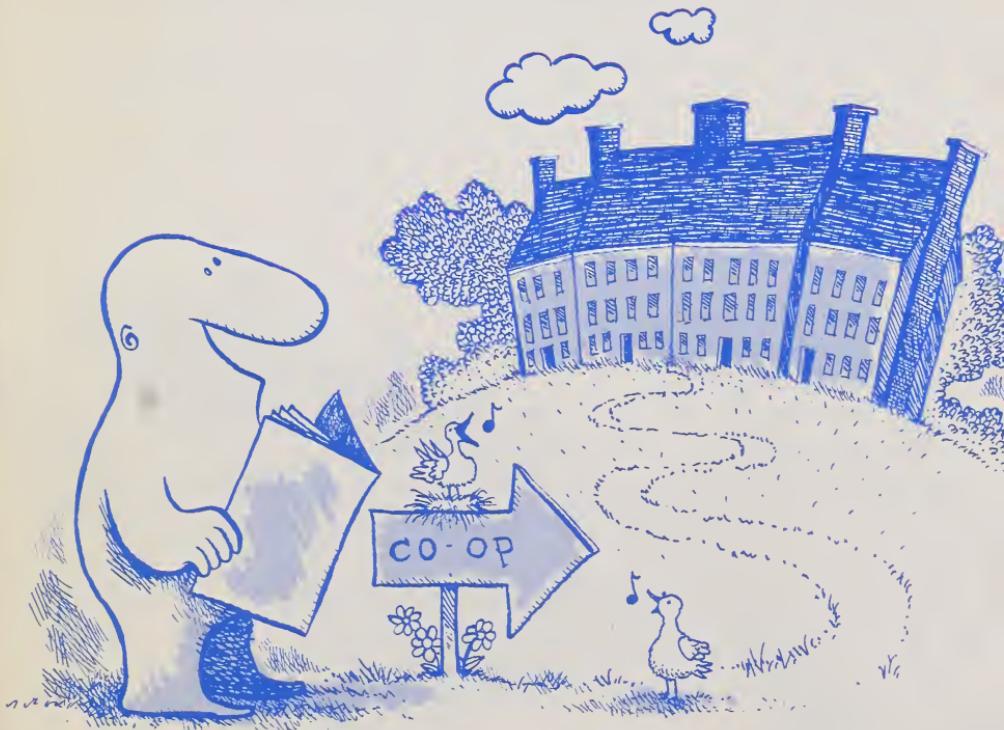
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What Is a Cooperative?

A cooperative is a group of people working together in a joint economic activity that is owned and operated by its members for their mutual benefit.

In a housing cooperative (or co-op), a housing development is jointly operated by its members. They own membership certificates in the corporation, giving them the right to occupy a dwelling unit and participate in the operations of the corporation. The total property is owned by the cooperative housing corporation.

USDA's Farmers Home Administration (FmHA) can make loans to provide cooperative housing for persons with low and moderate incomes in rural areas and in communities of up to 10,000 people and, in certain circumstances, up to 25,000. All persons applying for occupancy must be given equal consideration without regard to race, color, religion, age, sex, marital status, handicap, or national origin.

Let's look at some of the aspects of living in a housing cooperative. It may be that it is right for you.



Equity

Cooperative housing gives you the opportunity to share in owning your dwelling. You, as an individual, do not own the unit you are occupying; instead, you and the other members own the entire assets (property) of the cooperative. Joining the cooperative will allow you to build a limited equity, that is, to establish some value in the property. How much depends basically on two conditions:

- (1) Equity growth — the longer the membership, the more equity you build.
- (2) Cooperative self-management — you build more equity if you don't have to pay for professional management.

How the members can achieve equity growth and self-management are important principles in the success of any cooperative. Let's look at what this means to you.

Your Equity. Where does the money come from?

A portion of your fixed occupancy charge each month goes into a ***Management account***. If at the end of the first and succeeding years the cooperative has proven that it can manage itself, the funds collected in that reserve account will be assigned at the end of the year equally to each member. This is called patronage capital, or equity.

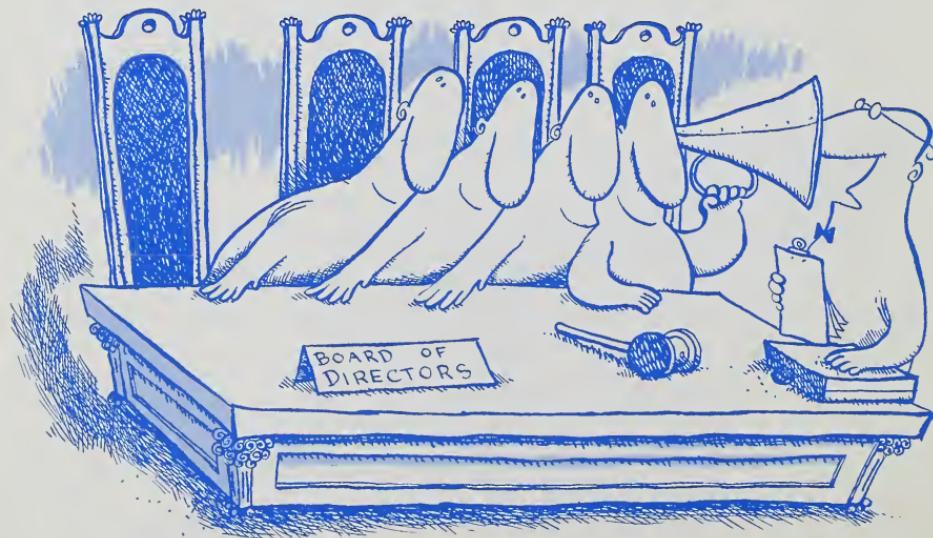
This amount will build up each month that there is no need for a salaried manager until such time you choose to end membership and move from the cooperative. Likewise, if any amount of the total occupancy charges collected from all members during the year is more than the yearly expenses, the excess income will be equally divided among the members and also placed in the patronage capital account.

Board of Directors

The **Board of Directors** fills one of the key roles in the operation and management of cooperative housing. It is the body that runs the cooperative. The board is composed of the **President, Vice President, Secretary, and Treasurer**.

All of the directors are elected from the cooperative membership. That means you and your neighbors. These positions will have to be appointed in the beginning just to get things started. Then, during the first annual meeting, you will have an opportunity to run for office or to vote for those persons you want to serve on the board.

The board, with the help of an Adviser, will establish the policies under which the cooperative operates on a day-to-day basis. The board also will be responsible for enforcing cooperative rules and regulations. Remember, since board members are also cooperative members, they must follow the same rules and regulations that other members follow.



The board must make many decisions affecting the cooperative. Some are much more difficult than others.

Easy Decisions. As a director you will decide on such things as what type of play equipment is needed for the youngsters in the development, or what types of trees do well in your particular climate, and how many to buy.

Hard Decisions. How would you handle a decision to increase occupancy charges if the bills can no longer be paid with the cooperative's existing monthly income? Or, what would you do if someone becomes seriously delinquent in paying occupancy charges and you have to take part in the decision to evict the person or family? These are examples of tough decisions the board has to make.

Decision making is a part of the responsibility of the management of the cooperative, a role that has to be taken very seriously. Could you do it?

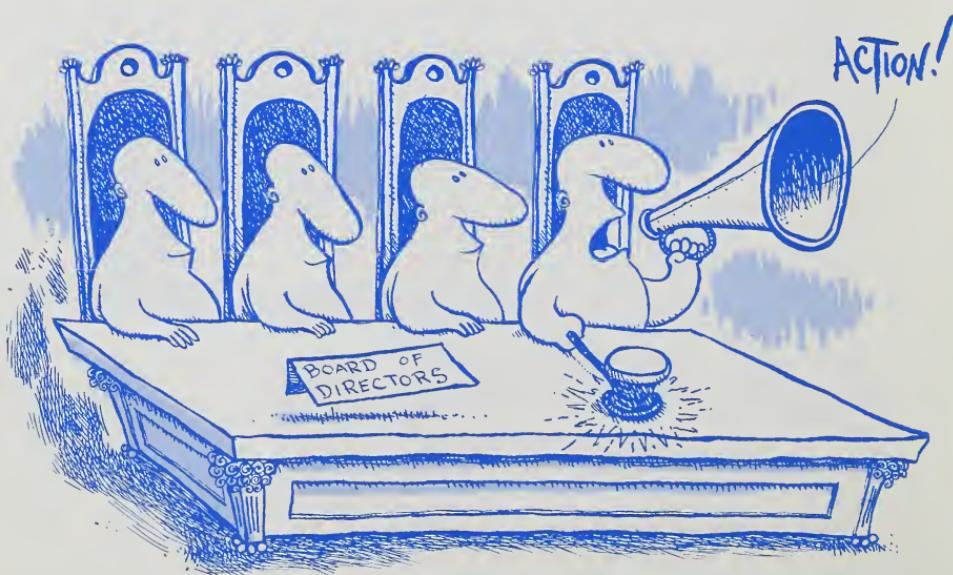
These responsibilities may sound a little frightening to those of you who have had little or no experience with making business decisions. Be assured that you will not be expected to undertake the running of the Cooperative without a great deal of assistance. However, after a reasonable period of supervision and training by the Adviser to the Board, the Cooperative Board should be in a position to begin managing the Cooperative itself. The Adviser will not abandon the Cooperative at that time but will maintain a close relationship with the Board.

Adviser to the Board

Cooperative self-management usually requires some practice to be successful. To help the members avoid difficulty in the early stage of formation of the cooperative, a nonmember will serve as an adviser to the board.

This could be someone who is either sponsoring the cooperative or who will take an interest in its operation. It must be someone who is qualified to work with people and who desires to be as helpful as possible in seeing the cooperative established on a sound footing.

That person will attend the monthly board meeting to assist the board in maintaining a smooth operation and to help keep it on track. If that adviser feels that the board is unable to provide adequate management, FmHA will assist the board in correcting deficiencies. If this effort is not successful, a professional manager will be hired by the board. The adviser will earn a modest salary, which will be paid from the management reserve account.



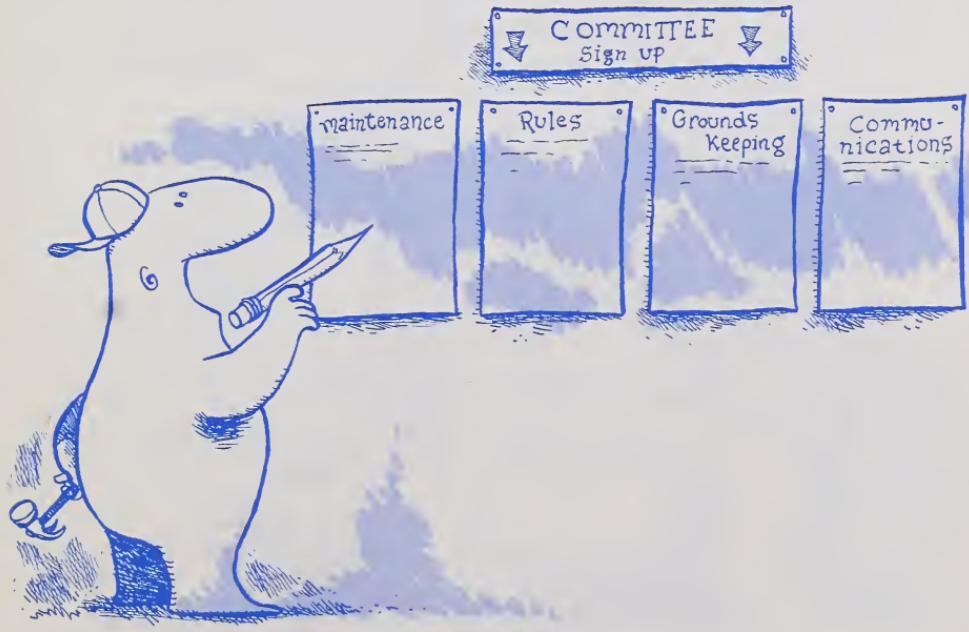
Committees

Suppose the role of a board member is not for you. You can still be an important part of the cooperative. How? One way is to serve on one of the committees.

Maybe you would be interested in working on the rules and regulations, groundskeeping, or communications committee, for example.

The work of the committees is important in the operation of a cooperative.

If you are not one of the persons chosen to serve on the board of directors, you might want to serve on a committee. The purpose of the committees is to help the board of directors find ways for the housing project to function soundly. The board will ask a committee to suggest a course of action within its particular area.

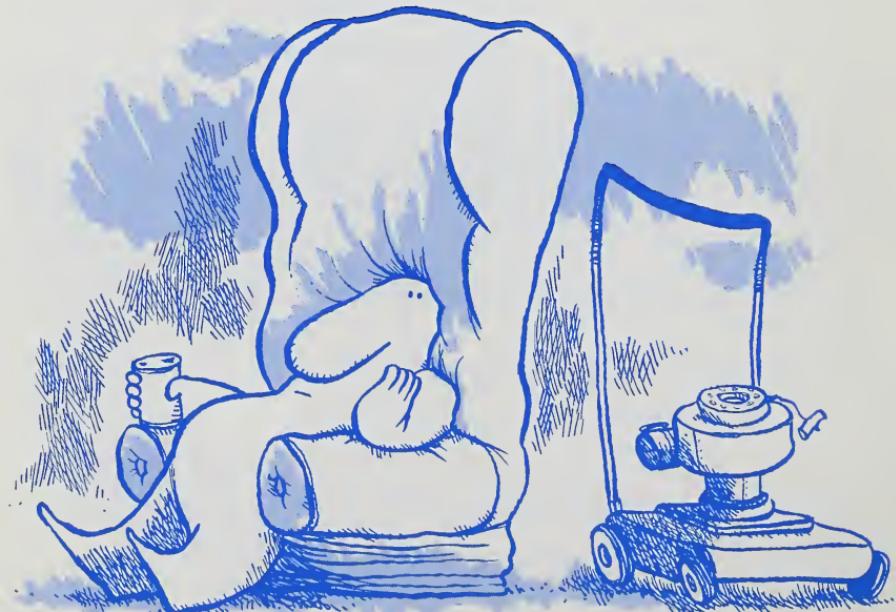


What Kind of Committees

For instance, the **Rules and Regulations Committee** might be asked to provide a plan for parking regulations, or the **Groundskeeping Committee** may be asked to provide a schedule for grass cutting. The board does not have the time to handle all of these activities, and it should not have to, because the cooperative belongs to all members. Working on the committees will provide you and other members with a voice in its operation. Each committee will need to select a chairperson.

Board/Committee Coordination. To keep the board abreast of what is going on in the committees and to maintain close coordination between the board and the committees, a member of the board will need to serve on each committee and attend each working session.

Whatever the committee recommends will be presented to the full board for its consideration. Committees probably will not need to meet more often than once a month. If the committees are successful in carrying out their duties, this will enable the board of directors to succeed in providing proper overall management.



Communications/Committee. To avoid serious problems caused by lack of communication, there is a very real need for the cooperative to keep itself informed on what is happening in the community. This can easily be accomplished by publishing a monthly newsletter. Each committee can provide the membership with a status report of its duties, which will keep all members informed on topics of common interest.

The newsletter can also be used to advertise services, such as babysitting or cleaning, and items for sale. The newsletter should be open for expressions of opinions by members in either a letters-to-the-editor or a "soundoff" section. The ***Communications Committee*** would be responsible for coordinating all news items for publication. The chairperson may, or may not, act as the editor.

Other Committees. We have mentioned three committees; however, you and the other members decide which committees your cooperative needs. The goal will be to involve as many members as possible on the committees — on a volunteer basis only. If you are interested in or have experience that would benefit a particular committee, then, by all means, you should volunteer. To sit back and "leave it up to someone else" won't get the job done.

If You are Getting the Impression that all Jobs in the Cooperative Are Extremely Important, You are Right!!!

No less important is your role in the maintenance of the property. Now comes the dirty work. Instead of paying a contractor to cut the grass or paint a unit, a group of the members will be expected to assume these responsibilities through the **Maintenance Committee**. The more technical types of maintenance will need to be contracted out to professional persons who have specialized knowledge and experience.

Your **Number one** goal is to assist in every way possible to ensure that the cooperative has the ability to manage itself without the benefit of paid managers. We have already mentioned the major areas which will help achieve this goal. If it becomes necessary to hire a salaried manager, then the money being set aside each month for your equity will be used to pay the manager's salary.

Once a year the entire membership will assemble in a convenient location to hear the president of the board discuss the status of the Cooperative, the treasurer's report on the financial condition of the Cooperative, and other various reports concerning your Cooperative community. During this meeting some officers may be elected, or re-elected. This meeting will also present an opportunity for the members to bring up matters of importance to the entire membership. There may be issues which require a vote of the majority of the membership before any changes can be made in certain aspects of the operation of the Cooperative. That vote will be taken during the annual meeting. So you see, there are important things to see, hear, and do during the annual meeting, and your attendance will be very important to the total Cooperative picture.

Remember, if the cooperative must hire professional management, then the amount you pay each month that goes into the management reserve account will be used to pay for management and will not go into your patronage capital account.

No patronage capital will be distributed to any person as long as the person is a member living in the cooperative project.

Any patronage capital owed to you will be given to you at the time you vacate the unit and the unit is left in good condition. Renewal of membership and occupancy in the cooperative is for 3-year periods only. At the end of each expired term, the member has the right to renew for an additional term provided the member is maintaining acceptable membership status by obeying all cooperative rules and regulations.

How Do You Get Into Cooperative Housing?

If you think cooperative living is right for you, and you are interested in joining or starting a cooperative, contact your nearest FmHA office (under U.S. Department of Agriculture in your telephone directory) or write to Farmers Home Administration, Washington, D.C. 20250.

You have an Opportunity

- to learn how to handle business transactions and management of a housing Cooperative;
- to learn to work with fellow members toward the common good of all concerned;
- to own property together with all the other Cooperative members;
- to get back a portion of the fee you have paid for your living accommodations.

Will it work for You? Will You work for it?



Farmers Home Administration

Farmers Home Administration is an Equal Opportunity Lender. Complaints of discrimination should be sent to the Secretary of Agriculture, Washington, DC 20250.

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